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ABSTRACT

This paper examines whether self-funding health benefit plans for employees are appropriate for Texas school districts. In a self-funding plan, the cost of benefits is funded directly by the employer without the protection of an insurance contract. Proponents of the self-funding plan argue that it: (1) controls costs and improves the cash flow; (2) allows school districts flexibility in designing benefits so that self-funding plans are exempt from state-mandated plan design features; (3) reduces fixed costs; (4) yields greater employee awareness; and (5) gives interest on reserve funds to the school districts. However, such plans have higher initial risks than insured plans and greater potential for legal liability. It is concluded that self-funding plans are appropriate for Texas school districts when planned, understood, and supported by the administration, board of trustees, and employees. (LMI)

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THE ISSUE OF SELF-FUNDING BENEFITS FOR TEXAS INDEPENDENT SCHOOL DISTRICTS

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The Issue of Self-Funding Benefits for
Texas Independent School Districts

1. Issue

Are self-funding benefit plans appropriate for Texas independent school districts?

2. Points of View

With the cost of health coverage increasing faster than the cost of inflation, school districts are looking for ways to cover employees with health benefits. The Texas Education Code 13.913 regarding group health benefits for school employees states that each school district will make available to their employees group health coverage. The coverage must meet the requirements of the Insurance Code and must be comparable to the basic health coverage provided under the Texas Employees Uniform Group Insurance Benefits Act. The cost of the insurance may be shared by both the employee and the school district. The coverage must be certified. Before a contract is agreed upon, financial statements must be presented showing the financial condition of the insurer. Thereafter, financial statements are required annually.

Self-insurance is a misnomer. Self-funding is the correct term. This means there is no insurance involved. The cost of benefits is funded directly by the employer without the protection of an insurance contract. As stated in the Houston Post, "companies [school districts] that choose to operate or

fund their own insurance plans are exempt from state insurance regulations under a 1974 law called the Employee Retirement Income Security Act or ERISA (Houston Post, D6)".

In an interview with Dick Hillyer, Conroe Independent School District Benefits Consultant, he indicated there are many reasons that school districts are interested in self-funding (Hillyer). The first reason is economic considerations. Self-funding is a way to control costs and manage cash flow. The second reason is avoidance of state mandated benefits by ERISA. The third reason is that self-funding is acceptable to insurers. In State ex. rel. Farmer v. Monsanto Co., 517 S.W. 2nd 129 (Mo. Sup. Ct. 1974), it was held that self-funding would not be construed as doing insurance business if the self-funding was limited to the employees and dependents or the employer and the profit motive was absent (Rosenbloom, 421). A fourth reason is the increasing popularity of risk management.

The future of self-funding was discussed by David Wilson at the Self-Insurance Institute of America's 1992 educational conference (Spencer's, 331.9). In summary, Mr. Wilson said that self-funding is growing in all institutions. He stated that there has been progressive growth in the rate of minimum premium insured plans. He also indicated that for employer groups with 500 to 1,999 employees these were the groups that were most likely to use third party administrators. Self-administration of health claims is probably decreasing because groups want managed care. Most current national health reform proposals ignore reality because they do not deal with price and access problems.

3. Personal Position

Conroe Independent School District offers a self-funding health plan to its employees. After reading literature, interviewing Dick Hillyer and serving as co-chairperson of the Conroe Independent School District's Employee Benefits Committee for the past three years, I believe self-funding is appropriate for school districts in the state of Texas.

My first reason is that cash flow is improved for self-funding school districts. Insurance premiums are typically due in advance. Self-funding plans pay claims as they emerge or become due. During the first year of self-funding in the Conroe Independent School District there was a 60 to 90 day delay in payments of claims which increased the cash reserve.

Flexibility in plan design is my second reason. Self-funding plans are exempt from state-mandated plan design features. As co-chairperson, I have been involved in making modifications to the Conroe Independent School District plan. An example of this was adding coverage of all required immunization shots by the Conroe Independent School District for eligibility to enroll in school. Another example was increased lifetime benefits for chemical dependency. These are just two examples of how the plan has recently been re-designed for the employees of our school district.

The third reason is that self-funding reduces fixed costs. Insurance premiums typically include coverage for many services a plan does not need or use. By purchasing services on an unbundled basis self-funding plans can reduce fixed costs.

A fourth reason is the employee awareness of their own plan. By having a district wide committee, composed of a cross-section of district employees, the employees are actively involved and kept abreast on a monthly basis of where the plan stands financially. The committee gives an annual financial report to the school board with any plan design changes agreed upon by the committee. Off-shoots of employee participation is awareness of their own plan through a bi-monthly newsletter and a district-wide wellness committee. By working to improve the general health of all employees through wellness, the overall administrative costs will go down and the interest accrued on reserve funds will increase.

My fifth reason is interest on reserve funds. This interest comes back to the school district instead of going to insurance companies.

There are reasons against self-funding. The two biggest reasons are higher initial risks than insured plans and the potential for legal liability. Both these reasons can be overcome with careful planning. A school district must decide to be self-funding for the right reasons. Self-funding is appropriate for the school districts of Texas when planned for, understood, and supported by the administration, board of trustees, and employees.

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